

## Message Text

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ORIGIN ARA-14

INFO OCT-01 EUR-12 ISO-00 EB-08 SIG-02 MMO-04 AGRE-00  
CEA-01 CIAE-00 COME-00 DODE-00 FRB-01 H-02 INR-07  
INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-02 CTME-00  
AID-05 SS-15 STR-05 ITC-01 TRSE-00 USIA-15 PRS-01  
SP-02 SOE-02 OMB-01 DOE-11 AF-10 EA-12 NEA-10  
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E.O. 11652: N.A.

TAGS: OAS, ETRD, XA

SUBJECT: OAS SUGAR CONSULTATION

REF: STATE 519

1. AN OAS MEETING OF CONSULTATION ON U.S. SUGAR IMPORT MEASURES TOOK PLACE JANUARY 6. WE NOTIFIED THE SECRETARIAT ON JANUARY 3 THAT CHANGES IN OUR SUGAR RESTRICTIONS MIGHT BE NECESSARY, AND BRAZIL, COSTA RICA AND THE DOMINICAN REPUBLIC COMPLETED THE FORMALITIES BY REQUESTING THE MEETING. AMBASSADOR CASTILLO ARRIOLA OF GUATE-  
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MALA WAS ELECTED CHAIRMAN, AND IMMEDIATELY CALLED ON DEPUTY ASSISTANT SECRETARY BOSWORTH (EB) WHO OUTLINED THE PROBLEMS WE ARE HAVING WITH OUR NEW SUGAR IMPORT FEE AND THE CORRECTIONS THAT MIGHT BE NECESSARY. THERE FOLLOWED A GENERAL DISCUSSION THAT WAS BOTH USEFUL AND CONSTRUCTIVE. THERE WERE SOME COMPLAINTS ABOUT THE SHORT NOTICE FOR THE MEETING AND THE NEED TO SEEK INSTRUCTIONS BASED

ON WHAT BOSWORTH OUTLINED FOR THEM, BUT ALSO AN UNDERSTANDING THAT FAST ACTION WAS NECESSARY IN ORDER TO CONSULT PRIOR TO A U.S. DECISION. THE MEETING WAS NOT ADJOURNED SO THAT ANOTHER SESSION CAN BE CALLED, PERHAPS THE FOLLOWING WEEK, THOUGH BOSWORTH MADE IT ABUNDANTLY CLEAR THAT PRESIDENT CARTER MAY WELL MAKE HIS DECISION

IN THE MEANTIME.

2. THERE ARE TWO PROBLEMS WITH THE NOVEMBER 11 PROCLAMATION ESTABLISHING A VARIABLE IMPORT FEE ON SUGAR UP TO A MAXIMUM OF 3.3 CENTS PER POUND, BUT DOWN TO ZERO ON SUGAR VALUED AT 10 CENTS PER POUND OR MORE. ONE IS THAT A HIGHER FEE WAS NOT SET FOR REFINED SUGAR, SO THAT THE COST OF FOREIGN REFINING RAISES IMPORT VALUE AND LOWERS THE FEE THUS GIVING FOREIGN REFINERS AN ADVANTAGE OVER DOMESTIC REFINERS. THE PROPOSED SOLUTION IS TO ESTABLISH A SLIGHTLY HIGHER FEE ON REFINED VERSUS RAW SUGAR IMPORTS. THE SECOND PROBLEM IS OUR DIFFICULTY IN VALUING SUGAR IMPORTS IN ORDER TO APPLY THE VARIABLE FEE, WHICH COULD RESULT IN U.S. CUSTOMS HAVING TO INVESTIGATE EXTENSIVELY BEFORE MAKING ITS ASSESSMENTS WITH THE FURTHER POSSIBILITY THAT THE FEE ASSESSED COULD BE HIGHER THAN INVOICE PRICE MIGHT INDICATE. THE U.S. "INCLINATION", BOSWORTH SAID, IS TO REPLACE THE VARIABLE FEE WITH A FIXED FEE. THIS SECOND PROBLEM AND POSSIBLE UNCLASSIFIED

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SOLUTION ATTRACTED ALL THE ATTENTION OF THE MEETING.

3. BOSWORTH EMPHASIZED THAT ANY AMENDED IMPORT FEE PROCLAMATION WILL BE EFFECTIVE ONLY UNTIL THE INTERNATIONAL TRADE COMMISSION REPORTS TO THE PRESIDENT ON THE SUGAR SITUATION, A REPORT EXPECTED IN MARCH. AFTER THAT, ANY EXTENSION OF THE FEE OR OF THE TARIFF INCREASE OF LAST NOVEMBER WOULD REQUIRE NEW PROCLAMATIONS. THE ESSENTIAL POINT, HE SAID, IS THAT RECEIPT OF THE ITC REPORT WILL PROVIDE THE OCCASION FOR A REASSESSMENT OF THE ENTIRE SUGAR IMPORT REGIME. HE ALSO STRESSED THAT THE INTERNATIONAL SUGAR AGREEMENT, WHICH IS NOW PROVISIONALLY IN EFFECT, REMAINS THE BASIS OF U.S. SUGAR POLICY, AND THAT THE IMPORT FEE AND INCREASED TARIFF ARE TEMPORARY AND EMERGENCY MEASURES, AS AGREED IN THE OAS DECLARATION OF DECEMBER 2 (STATE 289742), UNTIL THE ISA HAS THE DESIRED ECONOMIC EFFECT ON THE WORLD PRICE.

4. DOMINICAN AMBASSADOR DIPP-GOMEZ WAS THE FIRST TO RESPOND. HE NOTED THAT THE DR HAS NOW SIGNED THE ISA. HE ALLEGED THAT THE CURRENT WORLD SUGAR PRICE IS BETWEEN 8.5 AND 9.5 CENTS, SO THAT A FIXED FEE IMPOSED BY THE

U.S. SHOULD BE NO HIGHER THAN ONE CENT PER POUND. HE WOULD CONTINUE THE PRESENT FEE CUTOFF AT 10 CENTS OR ABOVE. FURTHERMORE HE SAID THAT UNDER THE ISA, IMPORTING COUNTRIES MAKE NO COMMITMENTS ON THEIR OWN SUGAR PRODUCTION, AND THAT WHILE THE U.S. HAS SAID IT WILL NOT INCREASE PRODUCTION, THE SOVIET UNION AND FRANCE BOTH PLAN TO GROW MORE SUGAR. THEREFORE, HE SAID, THE U.S. SHOULD GUARANTEE A SPECIFIED LEVEL OF SUGAR IMPORTS FROM

LATIN AMERICA. THIS LATTER POINT WAS UNDERSTOOD TO REFER TO QUOTAS, AND BOSWORTH NOTED THAT AT PRESENT QUOTAS SEEM TO THE U.S. TO BE THE LEAST DESIRABLE SUGAR IMPORT POLICY. (NEVERTHELESS, AFTER THE MEETING DIPP-GOMEZ PROFESSED TO BE ENCOURAGED THAT BOSWORTH DID NOT REJECT UNCLASSIFIED

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QUOTAS MORE SHARPLY, AND WONDERED IF PRESIDENT BALAGUER SHOULD WRITE DIRECTLY TO PRESIDENT CARTER REQUESTING COUNTRY QUOTAS. THE U.S. DELEGATION TRIED TO DISCOURAGE HIM FROM FOLLOWING THIS COURSE.)

5. BRAZIL, COSTA RICA, JAMAICA, MEXICO AND PERU ALL COMMENTED ON THE SUBJECT OF A FIXED IMPORT FEE. THEY OF COURSE ARGUED THAT IT BE LOWER RATHER THAN HIGHER AND THAT NO FEE APPLY WHEN THE SUGAR PRICE REACHES 10 CENTS, POINTING OUT THAT OTHERWISE THE IMPORT FEE COULD RAISE IMPORT COST ABOVE DOMESTIC COST AND THUS BE PROTECTIONIST. SOME QUESTIONED THE INABILITY OF U.S. CUSTOMS TO VALUE SUGAR IMPORTS AND APPLY THE VARIABLE FEE AS PRESENTLY CONSTITUTED. ONLY THE ARGENTINE DELEGATION WITHHELD SUBSTANTIVE COMMENT ON THE GROUND THAT IT WOULD NEED TO CONSULT WITH BUENOS AIRES FIRST.

6. BOSWORTH ASSURED THAT THE NOVEMBER SUGAR PROCLAMATIONS ARE DESIGNED TO KEEP IMPORT COSTS NO LOWER THAN THE 13.5 CENTS PRICE AVAILABLE TO DOMESTIC PRODUCERS, BUT THAT WE ARE NOT INTERESTED IN FORCING IMPORT COST ABOVE 13.5 CENTS. HE SAID THAT THE LEVEL OF A FIXED FEE, ASSUMING THAT IS THE SOLUTION ADOPTED, HAS NOT YET BEEN DETERMINED, BUT THAT WE RECOGNIZE THAT THE SUGAR PRICE HAS RISEN LATELY. HE CLARIFIED THAT A FIXED FEE WOULD BE A FIXED AMOUNT PER POUND BUT WOULD NOT BE FIXED IN THE SENSE OF BEING A PERMANENT MEASURE. WITH REGARD TO CUSTOMS VALUATION, HE DESCRIBED THIS AS A LEGAL PROBLEM DEPENDENT ON THE CUSTOMS VALUATION PROCEDURES PRESCRIBED BY U.S. LAW. FINALLY, AS FOR RETAINING THE FEE CUT OFF AT 10 CENTS, THIS INVOLVES THE SAME BASIC PROBLEM OF VALUATION THAT MAKES THE WHOLE VARIABLE FEE SYSTEM DIFFICULT. UNCLASSIFIED

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7. ANOTHER MEETING SEEMS LIKELY, ESPECIALLY IF NO U.S. DECISION IS ANNOUNCED IN THE MEANTIME. AT THAT TIME WE MAY EXPECT SOME MORE SOPHISTICATED PROPOSALS FROM THE LATINS ON HOW TO MAINTAIN A VARIABLE ELEMENT IN THE FEE DESPITE THE VALUATION PROBLEM. VANCE

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